



EPIC / Fortnite BC Deal Review

July 19, 2018

Contact: Momar Sock@

Google Confidential

EXHIBIT 805.R

EXHIBIT 805.R-001

Objective: Partner with Epic to secure Fortnite's launch on Play and help them achieve their goals in the gaming industry

Fortnite, by Epic Games, is the game of the moment

- Hugely popular - 125M players and growing, #2 most popular game on YT
- \$1.2B in spend since launch in July 2017 across PC, Console, Mobile . ~\$1.5M/day on iOS.
- Epic Games is partly owned by Tencent (40%).

Fortnite will be released on Android in a few weeks, without distribution on Play

- CEO plans to launch through Fortnite.com and potentially OEMs (e.g., Samsung app store or preload)
- Argues that open platforms bring "robust competitive and economic benefits for everyone" and "smartphone app stores don't add value commensurate with a 30% distribution fee"

Not having Fortnite on Play creates significant risks for Android ecosystem & Play business

- **Fortnite's** absence could result in **\$130M (up to \$250M) direct revenue loss** for Play.
- Downstream impact of **\$550M (up to to \$3.6B)** potential revenue loss if broad contagion to other developers
- Security risk re sideloading and PR confusion on Play value as a gaming platform
- Longer term, this could damage **Play business model & Android ecosystem**

Proposal:

- **Get approval for a set of initiatives worth \$208M to Epic, for \$147M incremental funding through 2021 and 24 FTE to support the initiatives**
- **Get feedback on an additional opportunity to engage Epic in a larger partnership by including a sizable Yeti partnership, which increases the value to Epic to a total of \$478M, requiring \$270M incremental funding bringing total incremental funding needs of \$417M + 36 HC for both of the above proposals.**

- CEO declared motives:
 - Lack of belief in the value added by our Play Store. CEO strongly believes that as for PCs, users are able to take all the steps necessary to access the game (change phone mode, download apk etc.)
 - CEO trusts openness and sometimes acts as "idealist" (foundation work, anecdotes on forest, etc.).

Context

Google

Proprietary + Confidential

- Invest with them at partnership level.
- This is an opportunity for us.

Fortnite, owned by Epic Games is the hottest game currently across all platforms



Epic Games

- Developer of **Unreal Engine**, creator of Fortnite and other leading games
- **Ownership:** Tencent (40%), Private (60%)
- **\$82M consumer spend on Play in Q2 2018 from the top 6 titles using Unreal Engine**

Fortnite Battle Royale

- Launched in July 2017 on PS4, Xbox & PC; Available on **iOS since Apr 18 & Switch since Jun 18**
- **125M players across platforms**
- **\$1.2Bn consumer spend since launch**
 >\$300M spend in June 2018 of which
 ~\$40M on iOS

Proprietary + Confidential

- About Epic games
- Epic Games develops the Unreal Engine, a successful game engine that powers games such as Lineage 2 and also powers their internally developed video games, such as Fortnite and the Unreal, Gears of War and Infinity Blade series..
- Company is owned by Tencent (40% at \$400M), rest is privately owned by co-founders
- The top 6 titles using Unreal Engine generated \$82M on Play in Q2 2018
- Epic also owns an a marketplace to sell developer tools.
- About Fortnite:
- Hottest game of the moment, which works across PC, console and mobile.
- 125M players
- Game has generated \$1.2B in revenues since launch (need date). 90% of revenues come from non-mobile.
- Revenues are estimated to very concentrated in 4 western markets (80%) with US leading by far (65% of total revenues, Japan is only 1%).
- 2nd fastest game to ever reach \$100M revenues on iOS
- Fortnite is YouTube's #2 game and it generated 1.8B hours of watchtime in Q2 alone. Fortnite creators have earned approx. \$35.8M in revenue YTD 2018 (as of 6/28/18).
- <https://9to5mac.com/2018/06/19/fortnite-for-ios-revenue-100m/>

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY

EXHIBIT 805.R-004

GOOG-PLAY-007278693

This creates significant risks for our Android ecosystem & Play business, and threatens our business in the long term

Direct impact

Poor user experience via sideloading

- 15+ steps to get app vs 2 steps with Play or on iOS

Security risk

- 70%+ of malware-infected devices have “unknown sources” turned on

Contagion effect

- Tencent companies or other top devs could follow, threatening ~10% of our Play revenues

Play revenue pressure

- Direct loss of \$130M-\$250M through 2021
- Increased revshare pressure from other AAA games

Indirect impact

Fragmented app ecosystem

- Fortnite may legitimize “Samsung” store & 3rd party stores; fragmenting app distribution on Android

Shifting market perception for Play

- No longer seen as “the best source” for apps & games

Android Brand impact

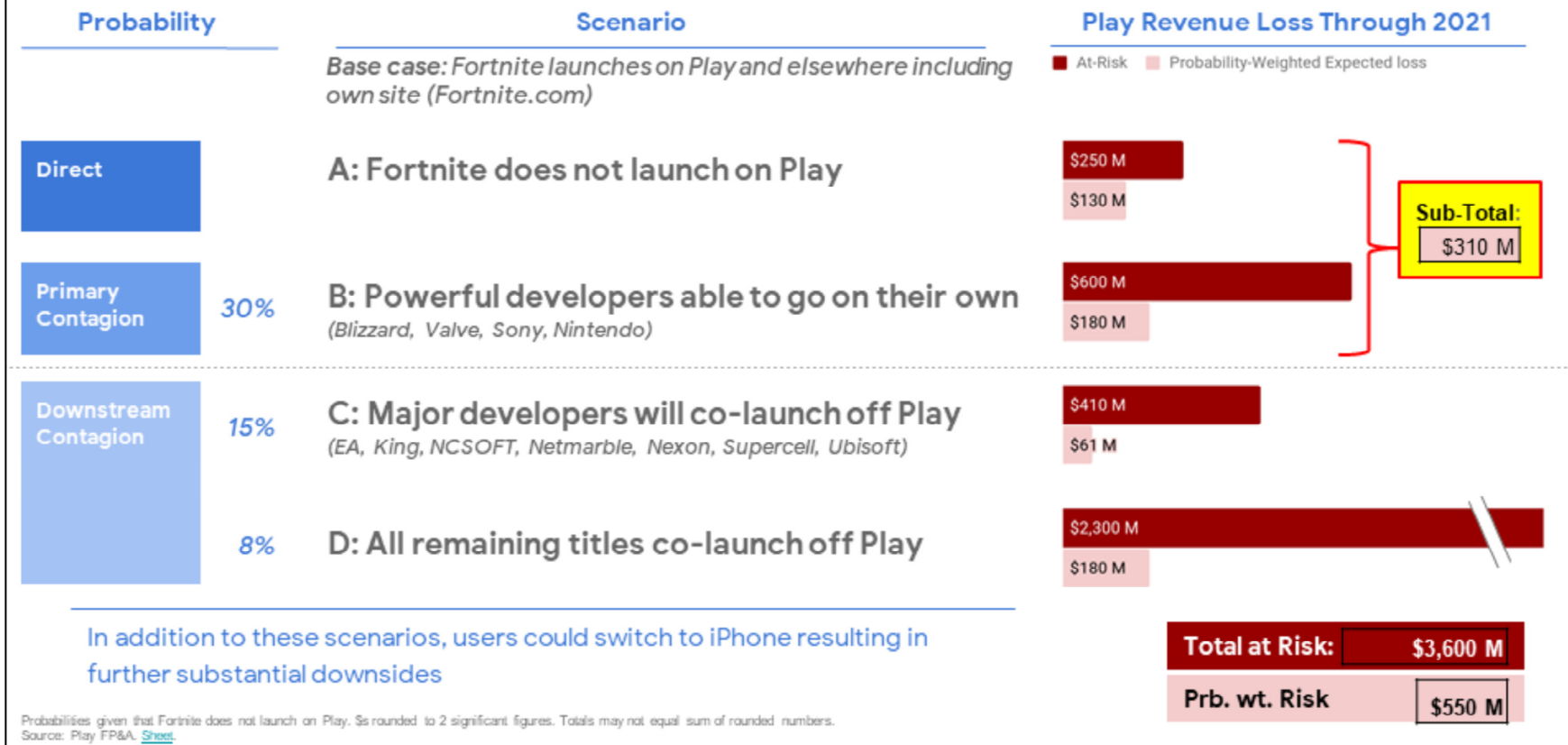
- Inconsistent access to AAA games
- Increases perception gap vs iOS ecosystem

Google

Proprietary + Confidential

- Losing 5% revshare would equal \$5Bn over 3Yr margin loss

Not having Fortnite on Play will decrease revenue by \$310M through 2021, \$550M if including downstream contagion



- For scenario A, no probability shown. Difference between “at-risk” and “probability weighted expected loss” is due to the difference between a bad but plausible “at-risk” scenario, and our best point estimates.
- Key Fortnite assumptions for at-risk case:
 - 1) TAM Android at 80% of iOS
 - 2) TAM drops from 100%-->75% BoY2, --> 75% BoY3+
 - 3) Apply enabled buyer factor of 60% in 1st Q, rising to 90% for Q2'19+
 - 4) Leakage to off-Play loading of 3%-->10% over 8 quarters
- Key Fortnite assumptions for probability-weighted case:
 - 1) TAM Android at 70% of iOS
 - 2) TAM drops from 100%-->70% BoY2, --> 50% BoY3+
 - 3) Apply enabled buyer factor of 43% in 1st Q, rising to 75% for Q2'19+
 - 4) Leakage to off-Play loading of 5%-->20% over 8 quarters
- Tencent has stakes / owns:
 - Supercell (84%)
 - Epic (40%)
 - Ubisoft (27.3%)
 - Netmarble (22%+8%)
 - King via Activision / Blizzard (5%)

EXHIBIT 805.R-006

Invest against primary revenue risk of \$310M (\$186M Margin) over 3 yrs

			Weighted Revenue Risk				2 Year Total (2018-2020)		3 Year Total (2018-2021)	
			2018	2019	2020	2021	Revenue	Margin	Revenue	Margin
Direct Risk	A: Fortnite not on Play		\$10 M	\$40 M	\$40 M	\$40 M	\$90 M	\$54 M	\$130 M	\$78 M
Primary Contingent Risk	B: Powerful developers able to go on their own.		\$ -	\$40 M	\$70 M	\$70 M	\$110 M	\$66 M	\$180 M	\$108 M
	SubTotal		\$10 M	\$80 M	\$110 M	\$110 M	\$200 M	\$120 M	\$310 M	\$186 M
Downstream Contingent Risk	C: Major developers will co-launch off Play		\$ -	\$10 M	\$20 M	\$30 M	\$30 M	\$18 M	\$60 M	\$36 M
	D: All remaining titles co-launch off Play		\$ -	\$20 M	\$60 M	\$90 M	\$80 M	\$48 M	\$180 M	\$102 M
	Total		\$10 M	\$100 M	\$200 M	\$240 M	\$310 M	\$186 M	\$550 M	\$330 M

Revenue figures rounded to nearest \$10M. Rounded totals may not equal the sum of the rounded components. Margin = 60% of Revenue.
Source: Play FP&A. [Sheet](#).

- Note: Incremental Fortnite revenue possible from getting Play exclusive
- Tencent has stakes / owns:
 - Supercell (84%)
 - Epic (40%)
 - Ubisoft (27.3%)
 - Netmarble (22%+8%)
 - King via Activision / Blizzard (5%)

The proposal

Google
Proprietary + Confidential

Asks to Epic & pitch considerations

Asks to Epic

Launch Epic titles (including Fortnite) for Android **on Play First**

Fallback: **Sim-ship** with all other distributions paths

Play is **at parity or better on pricing / content / promo** vs other platforms

Prioritize Pixel among set of devices for Android launch (subject to tech feasibility)



Our offer

Deepen relationships with Epic and unlock potential through Cloud initiatives

Match & support their efforts for small developers through a foundation & open source initiatives

Provide beneficial commercial terms to enhance their eSports effort and make Fortnite successful on Android

Google
Proprietary + Confidential

Demonstrating opportunities to co-invest in strengthening Fortnite brand and enrich the ecosystem could convince Epic to launch Fortnite on Play

	1 - Commercial support of Fortnite brand	2 - Broader support of developer ecosystem	3 - Deeper partnerships with Unreal Engine
<u>Initiatives</u>	<p>Support Fortnite eSports initiatives through YT sponsorship</p> <p>Organize Fortnite events (YT)</p> <p>P&E co-marketing for Fortnite launch on Play</p>	<p>Co-invest in Epic's foundation (Cloud, YT, P&E) to support small devs</p> <p>Build open source game services inc. ML bots (Cloud)</p>	<p>Sign GCP Reseller deal & offer GCP/PSO credits</p> <p>Acquire UE licenses for Yeti and develop enterprise use cases</p>
<u>Strategic value</u>	<p>Strengthens YT Live perception in the gaming community</p> <p>Licensing deal will make us the "Home of Fortnite"</p>	<p>Raises GCP profile in the industry (leadership, ethics)</p> <p>Grants visibility into innovations, future hits and talent pipeline</p> <p>Generalizes ML bot creation & drives adoption of GKE as the center of the open/hybrid cloud</p>	<p>Visibility into upcoming hits & increased GCP usage</p> <p>Procure licenses to publish 2nd party games at reduced cost</p> <p>Addresses large opportunity in the Enterprise space</p>

Proposal: Invest \$147M in incremental funding over 3 years (through 2021) in a X-PA effort to convince Epic to launch Fortnite on Play

		1 - Commercial support of Fortnite brand	2 - Broader support of developer ecosystem	3 - Deeper partnerships with Unreal Engine
<u>Initiatives</u>		Support Fortnite eSports initiatives through YT sponsorship Organize Fortnite events (YT) P&E co-marketing for Fortnite launch on Play	Co-invest in Epic's foundation (Cloud, YT, P&E) to support small devs Build open source game services inc. ML bots (Cloud)	Sign GCP Reseller deal & offer GCP/PSO credits Acquire UE licenses for Yeti and develop enterprise use cases
<u>Value to Epic</u>	\$208M	\$90M	\$41M	\$77M
<u>Incremental cost to Google</u>	\$147M	\$85M	\$27M	\$35M
<u>FTE</u>	24	4	7	13

All numbers through 2021, detailed view [here](#)

Google
Proprietary + Confidential

- Detail on HC asks
- Commercial support of Fortnite Brand: 4 to manage Tournament sponsorship; 2 to manage eSports grant
- Broader support of the ecosystem: 5 to create and maintain Epic specific features (2 for UE ML bots, 3 for open source game svcs)
- Deeper partnerships: Support new workload as well as how to sell this to enterprise customers. Sales and marketing would be on the order of 10HC (TBD), and on the technical side we would need 1PM + 12Eng which should include partner engineering and other support functions.

EXHIBIT 805.R-011

Deal risks & Mitigation



Unity could perceive this partnership as more beneficial to Epic

- Provisioned \$5M to ensure Unity can benefit from YT grants program
- Strengthen partnership on Cloud side (GCP+Play credits, Reseller)



Fortnite could decline in 2019, earlier than anticipated

- Acknowledging that gaming is a hit / miss industry, this proposal will provide **value beyond Fortnite** only by strengthening collaboration with Epic
- Device coverage & growth **targets** to ensure continued investment from Epic
- Deal terms will include **sim-ship requirements and parity on content / promo / pricing**



Other game devs & engines may request similar deal terms

- Strong **NDA** in place with Epic to prevent leakage of terms
- **Early engagement** and support development to ensure sim-ship on Android & iOS

Beyond mitigating short term risks, we are investing further in Gaming for Android & Play to help developers succeed on Android, ensure availability of AAA games on all devices and improve user experience


Google

Proprietary + Confidential

- FWIW, their breakneck growth rate is slowing down.
- <https://screenrant.com/fortnite-sales-figures-declining/>
- And as this reddit shows the game itself keeps fighting back to keep gamer attention
- https://www.reddit.com/r/FortNiteBR/comments/8q94kj/fortnite_decline/

EXHIBIT 805.R-012

There is an additional opportunity to engage Epic in a larger partnership by including Yeti

	Initiatives	Total value for Epic (2020-21)	Incremental cost (2020-21)	Estimated value to Google (2020-21, before incr. cost)	Strategic Rationale for Google
BC ask	1 - Commercial support of Fortnite brand 2 - Broader support of developer ecosystem 3 - Deeper partnerships with Unreal Engine	\$208M	\$147M + 24 FTE (\$33M)	\$186M	
Additional opportunity	Partner with Epic to launch Fortnite on Yeti, including subscription with 10% incentive fund; support launch with co-marketing (\$40M/yr) Enable Epic to operate a library of titles on Yeti through a subscription channel, with incentive fund	\$270M [\$120M Fortnite incentive pool + \$80M Fortnite co-marketing + \$70M Epic sub incentive pool]	\$270M + 12 FTE (\$17M)	\$239M¹ [\$188M Fortnite sub + \$51M Epic sub]	Protects against larger Play contagion risk than expected Accelerate gamer adoption of the Yeti platform via Fortnite Spark game development on Yeti, ultimately furthering adoption
Totals (through 2021)		\$478M	\$417M + 36 FTE (\$50M)	\$425	
<small>1. Yeti opportunity expected to be have positive net value (after deal cost) on an in-year and cumulative basis by 2022; includes additional platform revenue aligning to blended ARPU of \$240/yr.; assumes 55% of Fortnite subscribers are incremental to platform and 20% of Epic subscribers are incremental</small>		 Supporting Fortnite on Yeti will requires acceleration of infrastructure investment up to \$1B to ensure platform can handle 5M users.			

Google
Proprietary + Confidential

- Paid \$6M to EPIC to port Unreal Engine 4 on Vulkan.

Stakeholder Feedback (1/4)

Sales/BD
P&E: jamiero
YT: kmerryman

[jamiero] P&E

Pros: Protects direct Play revenue from Fortnite as well as potential contagion that would result from other top game developers also deciding to go direct. Also prevents fragmenting of Android developer ecosystem, which could have substantial knock-on effects to user experience and drive more users to iOS. Investment can be funded by estimates of the direct and indirect margin we are attempting to protect. Steers Epic down a path of deeper partnership with Google, which could have additional long-term benefit for YT, Cloud, Yeti and Android.

Cons: Risk of word spreading among developers (especially Tencent portfolio) that Epic got a "win" from Google and they should try the same. We think this is mitigated by the fact that 1) Fortnite is a very unique title and few if any others would have leverage in the same way; and 2) Much of the offer is specific to Unreal Engine

[kmerryman] YT

Pros: Supports our focus on being the Gamers home for gaming and desire to shift perception of YouTube as VOD within the gaming community to being a leader in live. Fortnite is trending to become the largest game on the platform with substantial "fan" creation of UGC content based on Fortnite game.

Cons: The cost far outstrips the value to YouTube. Gaming content poorly monetizes on YouTube, and sponsorships has not been historically successful. No resources or path to improve monetization in the short term.

Stakeholder Feedback (2/4)

Sales/BD

Cloud: micahbaker

Yeti: Phil Harrison

[micahbaker] Cloud

Pros: Cloud has already been working on a partnership strategy for Epic and needs it to accelerate our presence in the console space where Unreal is dominant. Very high market visibility potential from this partnership.

Cons: Having a partnership with both Unity and Epic creates challenges to navigate, but they are not insurmountable.

[PhilHarrison] Yeti

Pros: Yeti already has a partnership with Epic on Unreal Engine tools for Yeti development and this would help align their tools with our platform for the benefit of all stakeholders: gamers, developers and publishers. The Unreal-for-enterprise adds an important "off-peak" monetization opportunity to mitigate our TI costs. To the extent the deal scope extends to Fortnite, this would accelerate bringing the #1 property in Entertainment to Yeti and help drive gamer preference for our platform, faster.

Cons: Navigating a partnership with both Unity and Unreal will take some thought but is manageable.

Stakeholder Feedback (3/4)

Finance

P&E: shafiqahmed

YT: danwalker

Cloud: jurewicz

Yeti:

[shafiqahmed] P&E

Pros: Mitigates against loss of direct Fortnite revenue on Play as well as additional revenue leakage that may occur from other similar developers following suit. Helps prevent the establishment of precedent within the developer ecosystem where Play is bypassed which could have knock on effects on revenue generated through Android. Incremental investment proposal is recouped through the revenue/margin loss mitigation of direct Fortnite revenue and the primary contagion risk.

Cons: Proposed economics may not be sufficient to mitigate against risks of losing Fortnite on Play. This is partially mitigated by a x-Google offering that outlines a broad partnership opportunity bringing together the best of Google beyond that of the proposed economics. Risk that other top developers and Tencent (investor in Epic) view the economic incentives as a new opportunity to extract further value from Play thereby establishing precedent for others to follow suit.

[danwalker] YT

Pros: Deal will strengthen YT's overall perception in live streaming which is a major area of focus for us (vs Amazon's Twitch)

Cons: This is not an investment that YouTube would make on it's own, the relative value derived from this investment (due to the relatively poor monetization of gaming/live content) is well below our threshold for investment.

[jurewicz] Cloud

Pros: To use Fortnite parlance, enhancing this relationship is akin to opening a golden chest and finding a launch pad: If put atop a structure we build, it can get us to where we want to go quicker. Building ecosystems around the gaming vertical will threaten AWS as the platform of choice for this industry.

Cons: The success of the investments we can make will depend on the customer's buy-in. The upside to our business case is only theoretical without Epic's willingness to jointly succeed.

[lbcoste] Yeti

Pros: Enterprise deal provides potential use case for excess capacity; Unreal Engine license purchases will be done regardless over time; Fortnite sub could be an acquisition channel at Yeti launch; Broader Epic sub could bootstrap developer ecosystem

Cons: Enterprise adoption is speculative; Unreal licenses represent multi-year supply and business needs could change; extending deal to include incentivized Fortnite or pan-Epic subscriptions could a) set precedent with other publishers, and b) require significant (~\$1B) pull-forward of Tech Infra commitments (especially to support Fortnite)

Stakeholder Feedback (4/4)

PM & Eng
YT: cschen
Cloud: micahbaker

[cschen] YT

Pros: YouTube Live as a product would be highlighted with this investment, therefore establishing higher visibility in the market.

Cons: No expectation to need Product and/or Eng resources.

[micahbaker] Cloud

Pros: Cloud product strategy for gaming would have significantly higher credibility in the console space with Epic as a partner and user. Epic is at record breaking scale with Fortnite, so handling that scale validates our designs.

Cons: Epic can consume a lot of engineering resources easily. We need to be big enough to handle them.

Legal
P&E: tiaa
YT: emh
Yeti: tsultani
Cloud: schinnan

Redacted - Privilege

Controllershship
P&E: mkourakina

[mkourakina]

Pros: Protects Play/Android business models.

Cons: High complexity X-PA deal. The more detailed assessment is needed as the deal develops. Some of the themes we are monitoring based on the proposal: X-PA bundles (with potential revenue deferral from one PA to be recognized by another), X-PA payments to a customer and fair value of assessment of services received by Google.

Appendix

Detailed initiatives

Deal details

Additional context on Epic/Fortnite

Google
Proprietary + Confidential

Detailed list of initiatives & value / cost through 2021

Group	Initiative	PA	Length	\$ Value to Epic	Incremental cost to Google
1 - Commercial support of Fortnite brand	Fortnite Tournament sponsorship by YT	YT	1 - 1.5 year	\$60M	\$55M
	Co-marketing for game launch	P&E	3 years	\$30M	\$30M
2 - Broader support of developer ecosystem	Cloud Game studio grant program	Cloud	3 years	\$9M	\$9M
	Youtube Esports grant	YT		\$5M	\$10M*
	P&E grant	P&E		\$9M	\$9M
	ML Bots education program	P&E		\$9M	-
	Build ML bots & API with UE	Cloud	Ongoing	\$6M	-
	Build open source game services	Cloud	3 years	\$5M	-
	GCO & PSO credits to game studios	Cloud	3 years	\$15M	-
3 - Deeper partnerships with Unreal Engine	Reseller deal (15% vs. 10% standard)	Cloud	3 years	\$18M	-
	Pre-purchase of UE licenses	Yeti	One off	\$40M	\$30M
	Enterprise co-marketing	Yeti	2 years	\$5M	\$5M
			Total	\$208M	\$147M <i>FTE excluded</i>

*Offer Unity similar program; YT esports grant would not be pursued independent of the Tournament

- Here is a summarized list of initiatives we have identified.
- We are looking at the PA owning it, the length of the initiative, whether it has been designed to address the Fortnite issue, and whether the investment is increased due to the Fortnite issue
- GSO & PSO Credits
- Deal should have an annual term but spending would be allowed over 2 years (time required for dev to build games). Program would review after year 2
- Cost based on detail model done with another Engine. (Assumption 100 developers of which 5 make it to GA)
- Program would be launched but with much more scrutiny on ROI and complete deal model
- Dev marketing on UE-GCP integration
- UE-GCP integration requires only engineering work on Epic's side
- Once work is completed, we would support them with \$2M/year of marketing spend (not required to match)
- We would do the dev marketing effort even if no Fortnite issue considering their importance in the industry

EXHIBIT 805.R-019

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY

GOOG-PLAY-007278708

- Reseller
- Based on \$200M GCP revenues.
- Standard revshare is 10%, Epic would have 15%
- We have been very selective on who has access to this program.
- Additionally this could open potential for UE to go after enterprise customers

- GCP PRemium
- Discount price: ~70% (ex: \$0.07/Gb —> \$0.02/Gb in NA)
- Maintained for multiple years

- Play/GCP credits
- Increased revshare from current pilot program. (2%, total capped)
- Assuming \$400M consumer spend per year for Epic 1st Party titles, and 3% revshare
- Could be limited to Fortnite only

- Commercial ML bots integrated with UE (for easy development, detect bots usage in a game)
- Only engineering cost not scoped
- Additional small cost for UE integration
- Starts only in 2019
- Normally, these commercial ML bots would be sold

- Marketplace extension
- Allow UE assets to be sold on our Cloud marketplace and allow UE to sell our Cloud assets on their marketplace.
- Revshares to be set.
- Volumes are expected to be low thus limiting the potential and appeal

- Open Source game services (Q4 & 2019)
- Only engineering cost not scoped
- Work with Epic to build industry standard services used by Cloud games (chat services, virtual leaderboard, reward etc.)
- Unity could also join the foundation work. Despite any potential negative reaction, agreements allow us to work other engines and them with other cloud providers
- The foundation would need to be branded as Cloud only.

- ML Bots education program
- Offer access to ML bots API for small developers for training purposes, design training program
- \$5M covers usage costs as well as training design

- Game studio grant
- \$5M given to cover development work.
- Shared back with the community

- @Ryan
- 3 Esports Partner Managers to work with logistics, tournament planning, sourcing the production companies, etc
- 1 dedicated Marketing Head because of how massive the sponsorship is and spanning over so long
- That's right. I could be scrappy with 3, but not ideal.

YT - Fortnite tournament sponsorship



Key terms

- **YT Tournament:** Own & execute 1-3 Fortnite tournaments on YT
- **Title Sponsorship:** YT sponsors all Fortnite tournaments over 12-18 months
- **Distribution:** YT non-exclusive distribution of all tournaments

Value

- Strengthen **YT Live perception** in gaming community
- Partial recoup through ticket sales & Ads

Risks

- Extension to other game hits

Deal details

- **Length of agreement:** 12-18 months from Q4 2018
- **Custom deal for Fortnite issue:** Yes
- **Incremental costs:** Yes

Financials (through 2021)

Total value for Epic	Incremental costs	Total value to Google
\$60M	\$55M	Neutral



Proprietary + Confidential

[Back to slide 8](#)

- YT details
- \$45M: \$7.5M goes to tournament, \$19 to distribution, \$19M to title sponsor
- All of its incremental
- Except the Distribution deal for which we'd have considered butting \$5M
- How do we get to the \$45M?
- Value :
- Strengthen YT Live perception in the gaming community. Recoup \$\$ through ticket sales, etc.
- Licensing deal will make us the "Home of Fortnite", which is the biggest game in the industry.
- Perception in gaming community of supporting the "little guys" through the grant program.
- There is an opportunity to make this deal exclusive. But the costs is uncertain due to the current volatility of prices in the industry.

EXHIBIT 805.R-021

Foundation Cloud - Game Studio grant program



Key terms

- Create a game studio grant program with Google funding specific game development work.
- New technologies are given back to the community via the foundation

Value

- Grants visibility into innovations and future hit games
- Shows GCP thought leadership

Risks

- Unity may request similar contribution

Deal details

- **Length of agreement:** 3 years
- **Custom deal for Fortnite issue:** Yes
- **Incremental costs:** Yes

Financials (through 2021)

Total value for Epic	Incremental costs	Total value to Google
\$9M	\$9M	Neutral

Google

Proprietary + Confidential

[Back to slide 8](#)

- Game studio grant program raises GCP profile in the industry and shows thought leadership, investment in the future, and ethical use of our influence. Also grants visibility into innovations and future hit games.

YT - Game developer ESports grants



Key terms

- Provide a YouTube grant for game developers on Epic's Unreal Engine platform to jumpstart their content initiatives on YouTube
- Training on how best to spend and execute the grant

Value

- Strengthen **YT Live perception** in gaming community
- Recoup \$\$ through ticket sales

Risks

- Extension to other game hits (\$5M provisioned for Unity)

Deal details

- **Length of agreement:** 12-18 months from Q4 2018
- **Custom deal for Fortnite issue:** Yes
- **Incremental costs:** Yes

Financials (through 2021)

Total value for Epic	Incremental costs	Total value to Google
\$5M	\$10M	Neutral

Google

Proprietary + Confidential

[Back to slide 8](#)

- How do we get to the \$45M?
- Value :
 - Strengthen YT Live perception in the gaming community. Recoup \$\$ through ticket sales, etc.
 - Licensing deal will make us the "Home of Fortnite", which is the biggest game in the industry.
 - Perception in gaming community of supporting the "little guys" through the grant program.
- There is an opportunity to make this deal exclusive. But the costs is uncertain due to the current volatility of prices in the industry

EXHIBIT 805.R-023

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY

GOOG-PLAY-007278712

Foundation - P&E Support indies developers on Android and develop industry thought leadership



Key terms

- Provide technical and design training to help Indie games devs succeed on Android
- Inspire future game devs by sponsoring game dev schools & academies
- Build industry guidelines for game design, inc. digital wellbeing and fund research & programs for game addiction

Value

- Demonstrate Android & Play thought leadership on gamer wellbeing
- Bring more indies to Android

Risks

- N/A

Deal details

- **Length of agreement:** 3 years
- **Custom deal for Fortnite issue:** Yes
- **Incremental costs:** Yes

Financials (through 2021)

Total value for Epic	Incremental costs	Total value to Google
\$9M	\$9M	Negative

Google

Proprietary + Confidential

[Back to slide 8](#)

- Game studio grant program raises GCP profile in the industry and shows thought leadership, investment in the future, and ethical use of our influence. Also grants visibility into innovations and future hit games.

Foundation Cloud - ML bots education program



Key terms

- Google subsidized (free) Machine Learning bots education program with access to commercial ML bots API

Value

- Machine Learning program builds an internship/hiring pipeline with artifacts demonstrating talent

Risks

- N/A

Deal details

- **Length of agreement:** 3 years
- **Custom deal for Fortnite issue:** No
- **Incremental costs:** Additional FTEs to accelerate

Financials (through 2021)

Total value for Epic	Incremental costs	Total value to Google
\$9M	-	Neutral

Google

Proprietary + Confidential

[Back to slide 8](#)

- Game studio grant program raises GCP profile in the industry and shows thought leadership, investment in the future, and ethical use of our influence. Also grants visibility into innovations and future hit games.

EXHIBIT 805.R-025

Cloud - ML Bots



Key terms

- Create a commercial machine learning bots product with deep Unreal Engine integration, making it simple to integrate ML bots for Unreal games, and also detect unsanctioned bot usage in a game

Value

- Strategic alliance on ML gives GCP significant industry visibility and credibility on console games

Risks

- /

Deal details

- Length of agreement: N/A
- Custom deal for Fortnite issue: No
- Incremental costs: 2 additional FTEs

Financials (through 2021)

Total value for Epic	Incremental costs	Total value to Google
\$6M	-	Neutral

Google

Proprietary + Confidential

[Back to slide 8](#)

- XX

Cloud - Open Source game services



Key terms

- Build an open source version of major game services to create an industry standard that support multi/hybrid-cloud game infrastructure

Value

- Drive adoption of GKE as the center of the open/hybrid cloud

Risks

- /

Deal details

- **Length of agreement:** N/A
- **Custom deal for Fortnite issue:** No
- **Incremental costs:** 3 additional FTEs

Financials (through 2021)

Total value for Epic	Incremental costs	Total value to Google
\$5M	-	Neutral

Google

Proprietary + Confidential

[Back to slide 8](#)

- Already have two open source projects (Ubisoft and Unity); this falls in line with planned approach to line up partners anyway. Incremental cost would be plan acceleration but not yet quantified

Cloud - GCP+PSO Grant for EPIC



Key terms

- Grant Epic a significant pool of GCP credits and PSO funds
- Epic to allocate funds to high potential games from their own or other studios they want to sponsor (game incubator program)

Value

- Developer incubation program gives Google visibility into upcoming hits

Risks

- What control of devs granted credits?

Deal details

- Length of agreement: 3 years
- Custom deal for Fortnite issue: No
- Incremental costs: Yes

Financials (through 2021)

Total value for Epic	Incremental costs	Total value to Google
\$15M	-	Positive

Google

Proprietary + Confidential

[Back to slide 8](#)

Cloud - Reseller deal



Key terms

- Epic Games becomes a reseller of GCP solutions
- Resells solutions to games that successfully graduate from their incubator program
- 5% discount on GCP pricing

Value

- Increased visibility & credibility for Cloud Engine

Risks

- Existing deal with Unity covers main risks

Deal details

- Length of agreement: 3 years
- Custom deal for Fortnite issue: No
- Incremental costs: Yes

Financials (through 2021)

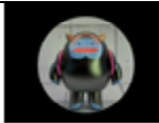
Total value for Epic	Incremental costs	Total value to Google
\$18M	-	Positive

Google

Proprietary + Confidential

[Back to slide 8](#)

- 15% discount would be off the list price ("standard" for this very selective incentive is 10%; 15% would be exceptional). Not just for games (would also be for enterprise). Assumes getting to \$200M of resold GCP revenue by Y3 - 2021 (which still represents very small portion of TAM). Incremental cost is the 5% above and beyond discount being offered for this deal.



Yeti - Pre-purchase UE licenses for Yeti

Key terms

- Google will agree to pre-purchase 20 licenses at a flat rate of \$2M/license for a total deal size of \$40M

Value

- Spark game development on Yeti
- Lower acquisition cost of licenses for 2nd party titles on Yeti

Risks

- N/A

Deal details

- Length of agreement: N/A
- Custom deal for Fortnite issue: No
- Incremental costs: Yes

Financials (through 2021)

Total value for Epic	Incremental costs	Total value to Google
\$40M	\$30M	Neutral

Google

Proprietary + Confidential

[Back to slide 8](#)

- XXXXX

Appendix

Detailed initiatives

Deal details

Additional context on Epic/Fortnite

Main Proposal - Annual view of financials

Cost : Value delivered to Epic & incremental cost to Google

	Total Cost					Incremental Cost				
	2018	2019	2020	2021	Total	2018	2019	2020	2021	Total
1 - Commercial support of Fortnite brand	\$6 M	\$58 M	\$16 M	\$10 M	\$90 M	\$5 M	\$54 M	\$15 M	\$10 M	\$85 M
2 - Broader support of developer ecosystem	\$ -	\$12 M	\$11 M	\$19 M	\$41 M	\$ -	\$12 M	\$5 M	\$10 M	\$27 M
3 - Deeper partnerships with Unreal Engine	\$ -	\$48 M	\$12 M	\$17 M	\$77 M	\$ -	\$31 M	\$2 M	\$2 M	\$35 M
Total	\$6 M	\$117 M	\$39 M	\$46 M	\$208 M	\$5 M	\$97 M	\$22 M	\$22 M	\$147 M

Main Proposal - Annual view of financials

Cost : Value delivered to Epic & incremental cost to Google

	Total Cost					Incremental Cost					Financial Value to Google
	2018	2019	2020	2021	Total	2018	2019	2020	2021	Total	
1 - YT: Fortnite Tournament sponsorship	\$6 M	\$48 M	\$6 M	\$ -	\$60 M	\$5 M	\$44 M	\$5 M	\$ -	\$55 M	Neutral
1 - P&E: Co-marketing for game launch	\$ -	\$10 M	\$10 M	\$10 M	\$30 M	\$ -	\$10 M	\$10 M	\$10 M	\$30 M	Neutral
2 - Foundation: CloudGame studio grant	\$ -	\$1 M	\$3 M	\$5 M	\$9 M	\$ -	\$1 M	\$3 M	\$5 M	\$9 M	Neutral
2 - Foundation: Youtube game dev grant	\$ -	\$5 M	\$ -	\$ -	\$5 M	\$ -	\$10 M	\$ -	\$ -	\$10 M	Neutral
2 - Foundation: P&E grant	\$ -	\$1 M	\$3 M	\$5 M	\$9 M	\$ -	\$1 M	\$3 M	\$5 M	\$9 M	Negative
2 - Foundation: ML Bots edu program	\$ -	\$1 M	\$3 M	\$5 M	\$9 M	\$ -	\$ -	\$ -	\$ -	\$ -	Neutral
3 - Industry: Build ML bots & API with UE	\$ -	\$2 M	\$2 M	\$2 M	\$6 M	\$ -	\$ -	\$ -	\$ -	\$ -	Neutral
3 - Industry: Build open source game svcs	\$ -	\$2 M	\$2 M	\$2 M	\$5 M	\$ -	\$ -	\$ -	\$ -	\$ -	Neutral
4 - Cloud comm.: Credits to game studios	\$ -	\$5 M	\$5 M	\$5 M	\$15 M	\$ -	\$ -	\$ -	\$ -	\$ -	Positive
4 - Cloud comm.: Reseller deal	\$ -	\$3 M	\$5 M	\$10 M	\$18 M	\$ -	\$ -	\$ -	\$ -	\$ -	Positive
5 - Yeti: Pre-purchase of UE licenses	\$ -	\$40 M	\$ -	\$ -	\$40 M	\$ -	\$30 M	\$ -	\$ -	\$30 M	Neutral
5 - Yeti: Enterprise co-marketing	\$ -	\$1 M	\$2 M	\$2 M	\$5 M	\$ -	\$1 M	\$2 M	\$2 M	\$5 M	Neutral
Total	\$6 M	\$117 M	\$39 M	\$46 M	\$208 M	\$5 M	\$97 M	\$22 M	\$22 M	\$147 M	

Main Proposal - Annual view of financials

Value of Play margin offset by incremental investments

	Financials				
	2018	2019	2020	2021	Total
Play Revenue	\$10 M	\$80 M	\$110 M	\$110 M	\$310 M
Play Gross Margin [A]	\$6 M	\$48 M	\$66 M	\$66 M	\$186 M
Incremental Cost/ Investment	\$5 M	\$97 M	\$22 M	\$22 M	\$147 M
FTE Payroll & Allocations*	\$ -	\$11 M	\$11 M	\$11 M	\$33 M
Total Incremental Investment [B]	\$5 M	\$108 M	\$33 M	\$33 M	\$180 M
Net Gain [A-B]	\$1 M	(\$60 M)	\$33 M	\$33 M	\$6 M

*HC ask of 24 FTE built into model starting in 2019: Yeti 13, YT 6, Cloud 5

Additional Yeti Proposal - Annual view of financials

Value of Yeti add'l opportunity margin offset by incremental investments

	Financials				
	2018	2019	2020	2021	Total
Yeti Revenue	\$ -	\$ -	\$390 M	\$592 M	\$982 M
Yeti Gross Margin [D]	\$ -	\$ -	\$82 M	\$157 M	\$238 M
Incremental Cost/ Investment	\$ -	\$ -	\$111 M	\$159 M	\$270 M
FTE Payroll & Allocations	\$1 M	\$6 M	\$6 M	\$6 M	\$17 M
Total Incremental Investment [E]	\$1 M	\$6 M	\$116 M	\$165 M	\$288 M
Net Gain [F=D-E] of Yeti add'l opportunity	(\$1 M)	(\$6 M)	(\$34 M)	(\$8 M)	(\$49 M)

*HC ask of 12 FTE built into model starting in 2018 (prorated in 2018)

Combined - Annual view of financial impact

Value of Total including Yeti add'l opportunity

		Financials				
Main Proposal		2018	2019	2020	2021	Total
Play Revenue		\$10 M	\$80 M	\$110 M	\$110 M	\$310 M
Play Gross Margin [A]		\$6 M	\$48 M	\$66 M	\$66 M	\$186 M
Incremental Cost / Investment		\$5 M	\$97 M	\$22 M	\$22 M	\$147 M
FTE Payroll & Allocations*		\$ -	\$11 M	\$11 M	\$11 M	\$33 M
Total Incremental Investment [B]		\$5 M	\$108 M	\$33 M	\$33 M	\$180 M
Net Gain [C=A-B]		\$1 M	(\$60 M)	\$33 M	\$33 M	\$6 M
*HC ask of 24 FTE built into model starting in 2019: Yeti 13, YT 6, Cloud5						
Additional Yeti Opportunity						
Yeti Revenue		\$ -	\$ -	\$390 M	\$592 M	\$982 M
Yeti Gross Margin [D]		\$ -	\$ -	\$82 M	\$157 M	\$238 M
Incremental Cost / Investment		\$ -	\$ -	\$111 M	\$159 M	\$270 M
FTE Payroll & Allocations*		\$1 M	\$6 M	\$6 M	\$6 M	\$17 M
Total Incremental Investment [E]		\$1 M	\$6 M	\$116 M	\$165 M	\$288 M
Net Gain [F=D-E]		(\$1 M)	(\$6 M)	(\$34 M)	(\$8 M)	(\$49 M)
*HC ask of 12 FTE built into model starting in 2018 (prorated in 2018)						
Total	Net Gain [C+F] Total, inc. Yeti add'l opportunity	(\$0 M)	(\$65 M)	(\$2 M)	\$25 M	(\$43 M)

Annual view of financials

Cost : Value delivered to Epic & incremental cost to Google (Total, inc. Yeti add'l opportunity)

	Total Cost					Incremental Cost					Financial Value to Google
	2018	2019	2020	2021	Total	2018	2019	2020	2021	Total	
1 - YT: Fortnite Tournament sponsorship	\$6 M	\$48 M	\$6 M	\$ -	\$60 M	\$5 M	\$44 M	\$5 M	\$ -	\$55 M	Neutral
1 - P&E: Co-marketing for game launch	\$ -	\$10 M	\$10 M	\$10 M	\$30 M	\$ -	\$10 M	\$10 M	\$10 M	\$30 M	Neutral
2 - Foundation: Cloud Game studio grant	\$ -	\$1 M	\$3 M	\$5 M	\$9 M	\$ -	\$1 M	\$3 M	\$5 M	\$9 M	Neutral
2 - Foundation: Youtube game dev grant	\$ -	\$5 M	\$ -	\$ -	\$5 M	\$ -	\$10 M	\$ -	\$ -	\$10 M	Neutral
2 - Foundation: P&E grant	\$ -	\$1 M	\$3 M	\$5 M	\$9 M	\$ -	\$1 M	\$3 M	\$5 M	\$9 M	Negative
2 - Foundation: ML Bots edu program	\$ -	\$1 M	\$3 M	\$5 M	\$9 M	\$ -	\$ -	\$ -	\$ -	\$ -	Neutral
3 - Industry: Build ML bots & API with UE	\$ -	\$2 M	\$2 M	\$2 M	\$6 M	\$ -	\$ -	\$ -	\$ -	\$ -	Neutral
3 - Industry: Build open source game svcs	\$ -	\$2 M	\$2 M	\$2 M	\$5 M	\$ -	\$ -	\$ -	\$ -	\$ -	Neutral
4 - Cloud comm.: Credits to game studios	\$ -	\$5 M	\$5 M	\$5 M	\$15 M	\$ -	\$ -	\$ -	\$ -	\$ -	Positive
4 - Cloud comm.: Reseller deal	\$ -	\$3 M	\$5 M	\$10 M	\$18 M	\$ -	\$ -	\$ -	\$ -	\$ -	Positive
5 - Yeti: Pre-purchase of UE licenses	\$ -	\$40 M	\$ -	\$ -	\$40 M	\$ -	\$30 M	\$ -	\$ -	\$30 M	Neutral
5 - Yeti: Enterprise co-marketing	\$ -	\$1 M	\$2 M	\$2 M	\$5 M	\$ -	\$1 M	\$2 M	\$2 M	\$5 M	Neutral
Main Proposal	\$6 M	\$117 M	\$39 M	\$46 M	\$208 M	\$5 M	\$97 M	\$22 M	\$22 M	\$147 M	
Fortnite on Yeti: sub. w/ increased royalty	\$ -	\$ -	\$100 M	\$100 M	\$200 M	\$ -	\$ -	\$100 M	\$100 M	\$200 M	Neutral
Epic on Yeti: sub. w/ increased royalty	\$ -	\$ -	\$11 M	\$59 M	\$70 M	\$ -	\$ -	\$11 M	\$59 M	\$70 M	Neutral
Add'l Yeti Opportunity	\$ -	\$ -	\$111 M	\$159 M	\$270 M	\$ -	\$ -	\$111 M	\$159 M	\$270 M	
Total, incl. add'l Yeti Opportunity	\$6 M	\$117 M	\$150 M	\$205 M	\$478 M	\$5 M	\$97 M	\$133 M	\$181 M	\$417 M	

EXHIBIT 805.R-037

Fortnite Channel & Subscription - Financials

Key Assumptions

Assumptions

Yeti Rev Share on Sub	30%
Yeti Rev Share on Microtransactions	30%
Partner Add'l Incentive Fund	10%
Platform Sub Attach	30%
Platform Sub/mo. Rev Share	\$4.25
Other Platform Spend/mo.	\$8.73
Other Platform Spend Rev Share	30%
Incremental Assumption	55%
Co-Marketing Fund (annual)	\$40M

Inputs	2020	2021	2022
YE Users	5,000,000	5,000,000	5,000,000
Avg. Users	5,000,000	5,000,000	5,000,000
Subscription Price/mo.	\$10.00	\$10.00	\$10.00
Microtransactions/mo.	\$0.00	\$0.00	\$0.00

P&L

Total P&L/yr.	2020	2021	2022	2020-2021	2020-2022
Gross Subscription Revenue	\$600M	\$600M	\$600M	\$1,200M	\$1,800M
Net Revenue to Epic (70%)	\$420M	\$420M	\$420M	\$840M	\$1,260M
Epic Incentive Fund (10%)	\$60M	\$60M	\$60M	\$120M	\$180M
Net Revenue to Yeti (20%)	\$120M	\$120M	\$120M	\$240M	\$360M
Yeti Other Revenue	\$169M	\$181M	\$195M	\$350M	\$545M
Yeti Variable Costs	(\$271M)	(\$251M)	(\$234M)	(\$522M)	(\$757M)
Co-Marketing Fund	(\$40M)	(\$40M)	(\$40M)	(\$80M)	(\$120M)
Yeti Profit/Loss from Proposal	(\$22M)	\$10M	\$41M	(\$12M)	\$28M

Headcount (not reflected in P&L):

- 12 EngPM & Business captured in proposal
- Potential need to accelerate Tech Infra deployments but could be re-purposed following deployment (~10-20, not captured elsewhere as very preliminary)

Google

Proprietary + Confidential

Epic Channel & Subscription - Financials

Key Assumptions

Assumptions

Yeti Rev Share on Sub	30%
Yeti Rev Share on Microtransactions	30%
Partner Add'l Incentive Fund	10%
Platform Sub Attach	30%
Platform Sub/mo. Rev Share	\$4.25
Other Platform Spend/mo.	\$0.73
Other Platform Spend Rev Share	30%
Incremental Assumption	20%
Co-Marketing Fund (annual)	\$0M

Inputs	2020	2021	2022
YE Users	2,000,000	5,000,000	8,000,000
Avg. Users	500,000	2,750,000	5,750,000
Subscription Price/mo.	\$15.00	\$15.00	\$15.00
Microtransactions/mo.	\$3.00	\$3.00	\$3.00

P&L

Total P&L/yr.	2020	2021	2022	2020-2021	2020-2022
Gross Subscription Revenue	\$108M	\$594M	\$1,242M	\$702M	\$1,944M
Net Revenue to Epic (70%)	\$76M	\$416M	\$869M	\$491M	\$1,361M
Epic Incentive Fund (10%)	\$11M	\$59M	\$124M	\$70M	\$194M
Net Revenue to Yeti (20%)	\$22M	\$119M	\$248M	\$140M	\$389M
Yeti Other Revenue	\$9M	\$53M	\$128M	\$62M	\$190M
Yeti Variable Costs	(\$37M)	(\$185M)	(\$349M)	(\$222M)	(\$571M)
Co-Marketing Fund	\$0M	\$0M	\$0M	\$0M	\$0M
Yeti Profit/Loss from Proposal	(\$7M)	(\$12M)	\$28M	(\$19M)	\$8M

Headcount (not reflected in P&L):

- No incremental if doing Fortnite sub
- 12 EngPM & Business if done as standalone (no Tech Infra)

Google

Proprietary + Confidential

Appendix

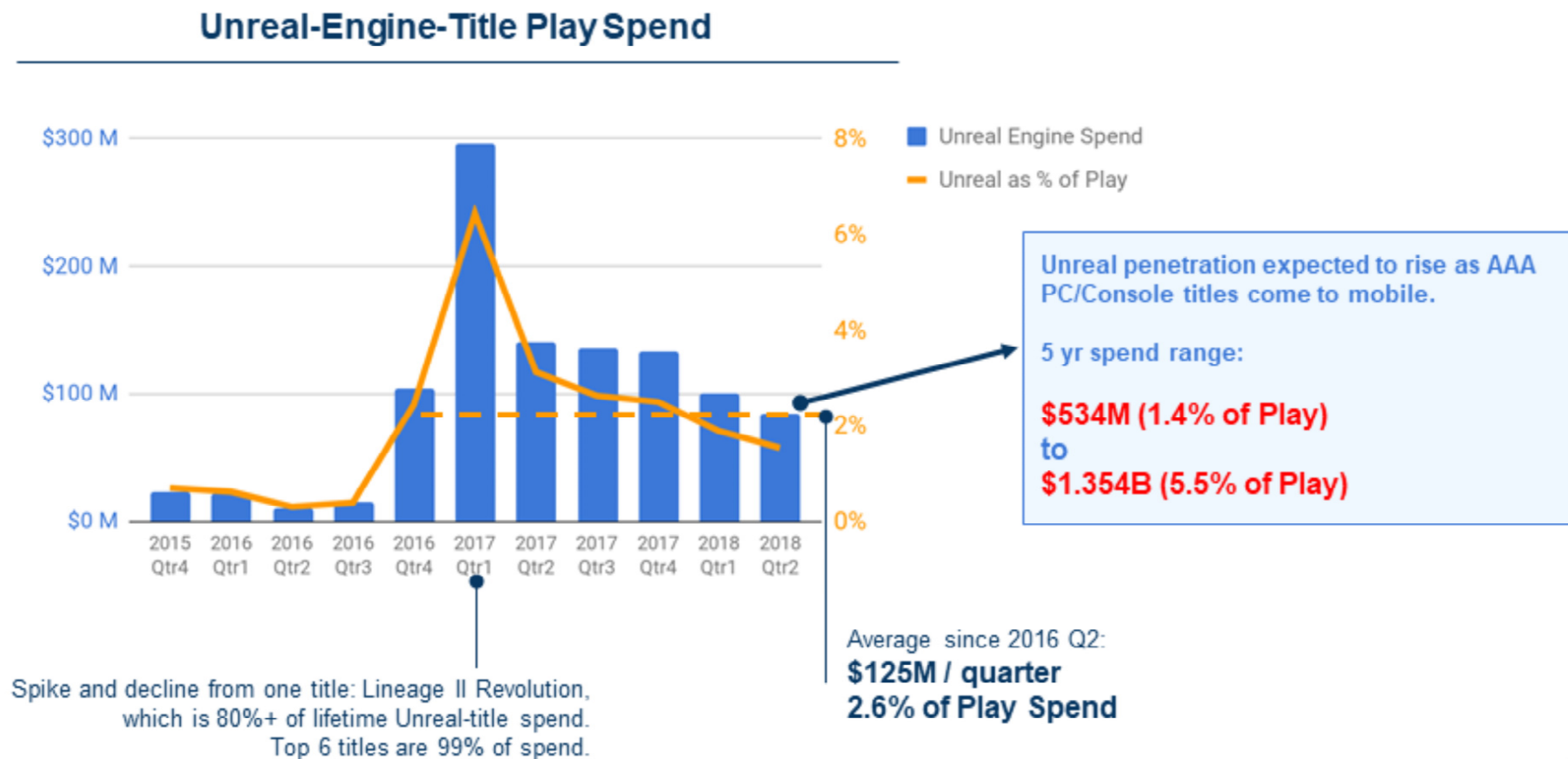
Detailed initiatives

Deal details

Additional context on Epic/Fortnite

Google
Proprietary + Confidential

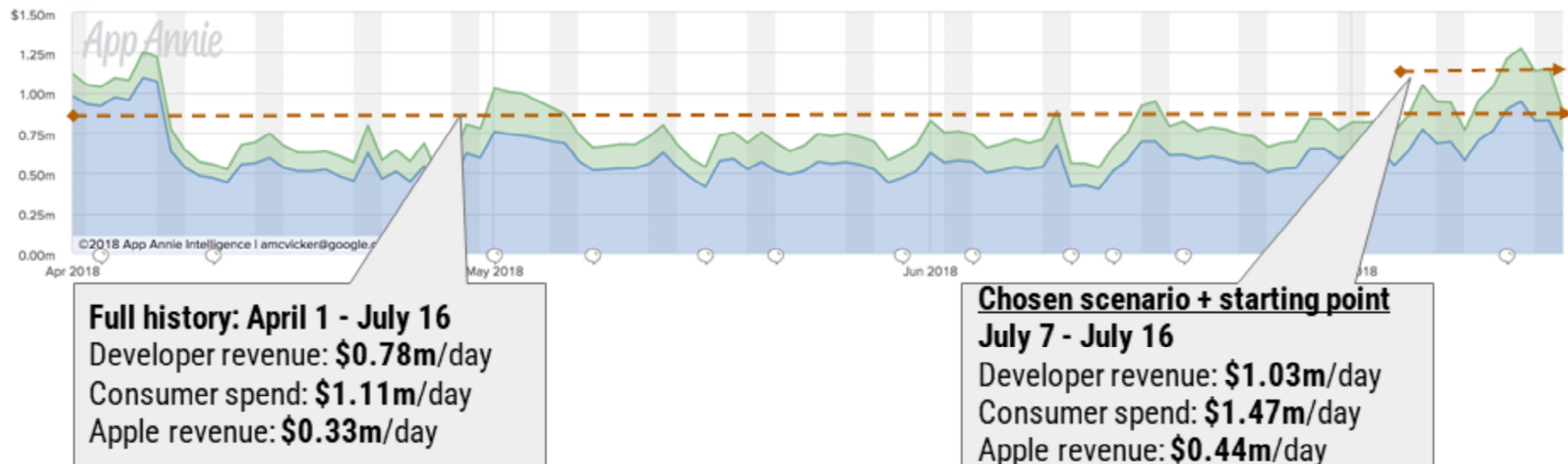
Unreal Engine Sizing



Google
Proprietary + Confidential

- Top title Lineage II is 82% of lifetime revenue.
- Next 5 titles (HIT, OverHIT, PUBG, Injustice 2, Three Kingdoms Blade) are additional 17% of revenue (cu've 99% of revenue)

AppAnnie iPhone/iPad Fortnite Revenue (Worldwide)



Google
 Proprietary + Confidential

EXHIBIT 805.R-042

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY

GOOG-PLAY-007278731

Forecasts for Annual Contributions to Foundation

Annual contribution to Foundation based on Spend on Play Store

		1%	2%	3%	4%	5%
By Spend on All Unreal Titles	Low	7.9M	15.8M	23.7M	31.6M	39.5M
	Medium	10.6M	21.2M	31.8M	42.4M	53.0M
	High	13.5M	27.1M	40.6M	54.2M	67.7M
By Spend on Fortnite Only	Low	1.6M	3.1M	4.7M	6.2M	7.8M
	Medium	2.6M	5.1M	7.7M	10.2M	12.8M
	High	3.8M	7.5M	11.3M	15.M	18.8M

- Top title Lineage II is 82% of lifetime revenue.
- Next 5 titles (HIT, OverHIT, PUBG, Injustice 2, Three Kingdoms Blade) are additional 17% of revenue (cu've 99% of revenue)

Slide 42

1

Shafiq Ahmed@google.com Josh O'Connor@google.com

Shafiq, I think this is what you were talking about when you said to put together a quick visual for what a foundation contribution would look like for either spend on Unreal (which now includes Fortnite) or for just Fortnite.

Assigned to Shafiq Ahmed

Brian Brazinski, 7/14/2018

Yeti (Fortnite/Epic Subscription) Risk Mitigation

Low Severity

Medium Severity

High Severity

Risk

Fortnite/Epic:
Subscriptions aren't ready to ship due to partner delays

Fortnite: title loses momentum/popularity fast than expected

Fortnite: subscribers ramp more slowly than anticipated due to value prop or competitive pressure

Epic: Epic does not have IP distribution rights to UE4 games to power Yeti sub and must go out and secure them

Fortnite/Epic: Customer acquisition and retention costs exceed projected numbers given nature of offering, competition and/or target demographic

Wind down: Google scuttles Yeti after commitment secured to one or both subscription services

Mitigation Strategy

- Yeti works closely with Epic teams on game porting and required features to ensure on-schedule delivery of subscriptions

- Introduce incentives or penalties into long-form agreement to ensure on-time delivery

- Monitor market and reduce TI pull-forward accordingly (can only reduce fraction of TI pull forward because commitments are made 18 mos ahead of time)

- Cancel Fortnite subscription

- Consider negotiating strategy that contemplates being able to shift focus from Fortnite to other Epic titles

- Ramp subscription service more slowly

- Work with Epic to improve subscription value prop relative to market

- Accelerate off-peak utilization efforts to mitigate TI costs

- Partner with Epic to secure IP rights for titles

- Cancel Epic subscription

- Partner with Epic to better target users

- Share additional marketing cost with Epic to drive user growth and/or retention

- Google terminates deal and compensates Epic accordingly

Graveyard (to be deleted)

Google
Proprietary + Confidential

There is an additional opportunity to engage Epic in a larger partnership by including Yeti

Opportunity	Initiatives	Total value	Incremental cost
● Opportunity to build an offer beyond current BC ask	<i>BC ask</i> 1 - Commercial support of Fortnite brand 2 - Broader support of developer ecosystem 3 - Deeper partnerships with Unreal Engine	\$208M	\$147M
● Bringing Fortnite would help drive gamer preferences towards Yeti	<i>Additional opportunity</i> Partner with Epic to launch fortnite on Yeti, including subscription with increased royalty Support launch with co-marketing	\$270M	\$270M
● Appetite will be explored with Epic	Enable Epic to operate a library of titles on Yeti through a subscription channel, with increased royalties		
● If interest, incremental cost of \$270M & acceleration of infrastructure investment of \$1bn will be submitted for approval			
 <p>Totals (through 2021) \$478M \$417M Supporting Fortnite on Yeti will require to accelerate infrastructure investment up to \$1Bn to ensure platform can handle 5M users.</p>			

Yeti - Fortnite channel & subscriptions

[Back to slide 8](#)

Key terms

- Featured content subscription channel on Yeti dedicated exclusively to Fortnite with 10% incremental incentive to Epic for the first 5M users
- Co-marketing for subscription channel and world cup event

Deal details

- **Length of agreement:** 1-5 years
- **Custom deal for Fortnite issue:** Yes
- **Incremental costs:** Yes

Value

- Accelerate Yeti adoption
- Help bootstrap Yeti's subscription offerings

Risks

- Accelerate infrastructure commitments for 5M users (ROM \$1B) by up to 1 year to facilitate subscription launch in Q1'2020.

Financials

Total costs	Incremental costs	Total value
\$100M / year	\$100M / year	-\$231M

Proprietary + Confidential

[Back to slide 8](#)

- XXXXX

Yeti - Epic channel & subscriptions

Key terms

- Enable Epic to publish and operate a large library of titles on Yeti, for which they receive a significant royalty (eg 80% to epic vs standard 70%). Epic would be a subscription channel on Yeti

Value

- Accelerate Yeti adoption
- Help bootstrap Yeti's subscription offerings

Risks

- Epic may leverage their Yeti discussions to extract more value

Deal details

- **Length of agreement:** 1-5 years
- **Custom deal for Fortnite issue:** Yes
- **Incremental costs:** Yes

Financials

Total costs	Incremental costs	Total value
\$194M / 5y	\$194M / 5y	\$4M / 5y

Google

Proprietary + Confidential

[Back to slide 8](#)

- XXXXX

Objective: Get approval for a set of initiatives worth \$208M to Epic, for \$147M incremental funding through 2021, with goal of releasing Fortnite on Play store

Fortnite, by Epic Games, is the game of the moment

- Hugely popular - 125M players and growing, #2 most popular game on YT
- \$1.2B in spend since launch in July 2017 across PC, Console, Mobile . ~\$1.5M/day on iOS.
- Epic Games is partly owned by Tencent (40%).

Fortnite will be released on Android in a few weeks, without distribution on Play

- CEO plans to launch through Fortnite.com and potentially OEMs (e.g., Samsung app store or preload)
- Argues that open platforms bring “robust competitive and economic benefits for everyone” and “smartphone app stores don't add value commensurate with a 30% distribution fee”

Not having Fortnite on Play creates significant risks for Android ecosystem & Play business

- **Fortnite's** absence could result in **\$130M (up to \$250M) direct revenue loss** for Play.
- Downstream impact of **\$550M (up to to \$3.6B)** potential revenue loss if broad contagion to other developers
- Security risk re sideloading and PR confusion on Play value as a gaming platform
- Longer term, this could damage **Play business model & Android ecosystem**

Ask: Investing in a partnership with Epic enable us to secure Fortnite's launch on Play and help them achieve their goals in the gaming industry

- CEO declared motives:
 - Lack of belief in the value added by our Play Store. CEO strongly believes that as for PCs, users are able to take all the steps necessary to access the game (change phone mode, download apk etc.)
 - CEO trusts openness and sometimes acts as “idealist” (foundation work, anecdotes on forest, etc.).
- We want to take advantage of potential opportunity

Annual view: Initiatives not part of BC ask

	Total Cost					Incremental Cost				
	2018	2019	2020	2021	Total	2018	2019	2020	2021	Total
Dev marketing on UE-GCP integration	\$ -	\$2 M	\$2 M	\$2 M	\$6 M	\$ -	\$1 M	\$1 M	\$1 M	\$2 M
Fortnite Yeti Channel with add'l incentives	\$ -	\$ -	\$100 M	\$100 M	\$200 M	\$ -	\$ -	\$100 M	\$100 M	\$200 M
Epic Yeti Channel with add'l incentives	\$ -	\$ -	\$11 M	\$59 M	\$70 M	\$ -	\$ -	\$11 M	\$59 M	\$70 M
Unreal Marketplace extension					?					?
GCP Premium Network discount					?					?
Play/GCP credits					?					?
Total	\$ -	\$2 M	\$113 M	\$161 M	\$276 M	\$ -	\$1 M	\$112 M	\$160 M	\$272 M